

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ADP-00 IO-12 AID-20 EB-11 NSC-10 RSC-01

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AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

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PRESS RELEASE ISSUED EVENING OF MAY 8 FOLLOW :

THE FOURTEENTH OF THE REGULAR HALF- YEARLY MEETINGS OF
THE INTER- GOVERNMENTAL GROUP ON INDONESIA WAS HELD IN AMSTER-

DAM ON MAY 7 AND 8, 1973. THE PURPOSE OF THE MEETING WAS TO DISCUSS THE RECENT PERFORMANCE AND PROSPECTS OF THE INDONESIAN ECONOMY AND TO ASCERTAIN THE LEVEL OF EXTERNAL ASSISTANCE THAT WOULD BE PROVIDED IN THE FISCAL YEAR 1973/74.

THE MEETING WAS ATTENDED BY REPRESENTATIVES OF THE FOLLOWING MEMBER COUNTRIES AND INTERNATIONAL ORGANIZATIONS: AUSTRALIA, BELGIUM, CANADA, FRANCE, THE FEDERAL REPUBLIC OF GERMANY, INDONESIA, ITALY, JAPAN, NEW ZEALAND, THE NETHERLANDS, SWITZERLAND, THE UNITED KINGDOM, THE UNITED STATES OF AMERICA, THE INTERNATIONAL MONETARY FUND, THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, THE ASIAN DEVELOPMENT BANK AND THE UNITED NATIONS DEVELOPMENT PROGRAMME. ALSO PRESENT WERE OBSERVERS FROM AUSTRIA, DENMARK, NORWAY AND THE ORGANIZATION FOR ECONOMIC CO- OPERATION AND DEVELOPMENT.

THE DELEGATION OF THE REPUBLIC OF INDONESIA STATED THAT ONE OF THE MAJOR OBJECTIVES PURSUED BY THE INDONESIAN GOVERNMENT WAS THE ACCELERATION OF THE DEVELOPMENT PROCESS IN A CLIMATE OF CONTINUED NATIONAL STABILITY. STEPS HAD BEEN TAKEN TO EXPAND RICE PRODUCTION AND INCREASE DOMESTIC PROCUREMENT BY THE GOVERNMENT RICE AGENCY (BULOG) FOLLOWING THE SHORTAGES CAUSED BY DROUGHT IN 1972. THERE WAS STILL A SUBSTANTIAL NEED FOR FOOD AID AND THE IMPORTANCE OF TIMELY FOOD AID ARRIVALS WAS STRESSED. IN THE CONTEXT OF THE RECENT INTERNATIONAL CURRENCY ADJUSTMENTS THE RATE OF EXCHANGE BETWEEN THE RUPIAH AND THE US DOLLAR WAS MAINTAINED; ALTHOUGH THIS IMPROVED THE COMPETITIVENESS OF INDONESIAN EXPORTS, IT RESULTED IN SOME INCREASE IN BOTH THE GENERAL PRICE LEVEL AND THE BUDGETARY BURDEN OF FOREIGN DEBT REPAYMENTS. THE BUDGET AND BALANCE OF PAYMENTS ESTIMATES FOR 1973/74 HAD BEEN REVISED; THE AMOUNT OF PUBLIC SAVINGS WAS NOW EXPECTED TO BE HIGHER AND TO FINANCE A LARGER PROPORTION OF TOTAL DEVELOPMENT EXPENDITURES. IN RESPECT TO THE BALANCE OF PAYMENTS A CONTINUING INFLOW OF CAPITAL WAS NOW FORECAST AND THIS COULD LEAD TO A FURTHER

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INCREASE IN FOREIGN EXCHANGE RESERVES. MEASURES WERE BEING TAKEN TO IMPROVE THE PROCEDURES FOR APPROVAL AND IMPLEMENTATION OF PRIVATE FOREIGN AND ALSO DOMESTIC CAPITAL INVESTMENT PROJECTS.

THE REPRESENTATIVES OF THE IMF AND WORLD BANK COMMENTED FAVOURABLY ON INDONESIA'S RECENT PROGRESS, DESPITE DIFFICULTIES CAUSED BY THE RICE SUPPLY SITUATION, AND EMPHASIZED THE IMPORTANCE OF CONTINUED IGGI SUPPORT IN THE ACHIEVEMENT OF INDONESIA'S DEVELOPMENT OBJECTIVES. BOTH INSTITUTIONS DREW ATTENTION, HOWEVER, TO THE EXTENT OF COMMERCIAL FOREIGN BORROWING BY PUBLIC ENTERPRISES DURING 1972 AND STRESSED THE IMPORTANCE OF CONTROLLING SUCH BORROWINGS.

THE STEPS TAKEN BY THE INDONESIAN AUTHORITIES TO ENSURE EFFECTIVE CONTROL OVER SHORT- AND MEDIUM- TERM BORROWING WERE

COMMENDED BY THE GROUP AS A WHOLE, WHICH UNDERTOOK TO SUPPORT THESE EFFORTS. IT WAS AGREED THAT THE PURPOSES AS WELL AS THE AMOUNTS OF FOREIGN BORROWING BY PUBLIC ENTERPRISES ON COMMERCIAL TERMS SHOULD BE CAREFULLY ASSESSED. IN RELATION PARTICULARLY TO MAJOR PROJECTS IT WAS IMPORTANT THAT THESE BE ESTABLISHED AS BENEFICIAL TO THE ECONOMY BEFORE NEW FOREIGN OBLIGATIONS WERE INCURRED.

THE MEETING NOTED WITH APPROVAL THE INDONESIAN GOVERNMENT'S PLANS TO INCREASE AGRICULTURAL PRODUCTION AND FOSTER THE DEVELOPMENT OF THE AGRICULTURAL SECTOR WHICH WAS RECOGNIZED AS CRITICALLY IMPORTANT IN ACHIEVING THE GOVERNMENT'S GROWTH AND EMPLOYMENT OBJECTIVES. DELEGATES PARTICULARLY STRESSED THE NEED TO PROMOTE THE PRODUCTION OF RICE AND OTHER FOOD CROPS IN THE LIGHT OF THE RICE SHORTAGE EXPERIENCED IN 1972/73. THE POLICY OF THE INDONESIAN AUTHORITIES TO DEVELOP THE OUTER ISLANDS AS A BASIS FOR MIGRATION FROM THE DENSELY POPULATED ISLANDS OF JAVA AND BALI WAS WELCOMED. IN THE DISCUSSION OF THE RAPID DEVELOPMENT OF FORESTRY PRODUCTION AND EXPORTS IT WAS STRESSED THAT IMPLEMENTATION OF EFFECTIVE FORESTRY REGULATIONS WAS NEEDED TO PRESERVE THIS IMPORTANT RESOURCE. THE GROUP ALSO EMPHASIZED THE IMPORTANCE OF BETTER STATISTICAL INFORMATION IN GENERAL AND FOR AGRICULTURAL PLANNING IN PARTICULAR.

THE GROUP WELCOMED THE STEPS RECENTLY TAKEN BY THE INDONESIAN GOVERNMENT TO CENTRALIZE AND STRENGTHEN THE MACHINERY
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FOR APPROVING AND ASSISTING PRIVATE FOREIGN AND DOMESTIC INVESTMENTS. IT ALSO NOTED THE EFFORTS BEING MADE, AND SUPPORTED BY RECENT CHANGES IN INTEREST RATES, TO ENSURE THAT SUFFICIENT FINANCIAL RESOURCES WOULD BE AVAILABLE TO COVER THE LOCAL SHARE IN JOINT VENTURES AND TO FINANCE DOMESTIC PRIVATE INVESTMENT THROUGHOUT INDONESIA.

IT WAS RECOLLECTED THAT THE GROUP, AT ITS DECEMBER MEETING, HAD ENDORSED THE INDONESIAN GOVERNMENT'S AID REQUEST FOR \$760 MILLION FOR THE FISCAL YEAR 1973/74, ADD UP AS FOLLOWS: \$390 MILLION OF PROJECT AID COMMITMENTS AND \$370 MILLION OF PROGRAMME AID DISBURSEMENTS, THE LATTER INCLUDING \$160 MILLION OF FOOD AID, WITH THE PROVISIO THAT THE FOOD AID WAS A PRELIMINARY ESTIMATE, REPRESENTING ABOUT 650,000 TONS OF RICE AND 700,000 TONS OF WHEAT.

SOME MEMBERS OF THE GROUP CONFIRMED THE ANNOUNCEMENTS THEY HAD MADE IN DECEMBER ON THE ASSISTANCE THEY WOULD MAKE AVAILABLE, AND THOSE WHO HAD NOT ALREADY DONE SO INDICATED WHAT LEVEL OF ASSISTANCE THEY SHOULD BE ABLE TO PROVIDE FOR 1973/74. THE GROUP NOTED THAT SEVERAL MEMBERS HAD BEEN ABLE OR WERE EXPECTING TO INCREASE THEIR CONTRIBUTIONS APPRECIABLY AND THAT AS A RESULT THE TOTAL CONTRIBUTIONS FOR NON- FOOD AID WOULD, EVEN AFTER ALLOWANCE FOR RECENT CURRENCY ALIGNMENTS,

EXCEED THE AID REQUEST: INDONESIA'S SEPARATE NEEDS FOR PROJECT AND PROGRAMME ASSISTANCE WOULD BOTH BE COVERED WITHIN THE TOTAL. THE GROUP FELT THAT EFFECTIVE USE COULD BE MADE OF ALL AID PROVIDED. ALTHOUGH CERTAIN DONORS INDICATED THAT THEY FACED SUPPLY CONSTRAINTS, IT WAS AGREED THAT EVERY EFFORT WOULD BE MADE TO ENSURE THE AVAILABILITY OF FOOD AID IN THE REQUIRED AMOUNTS; ACTUAL REQUIREMENTS WOULD BE REVIEWED THROUGHOUT THE YEAR IN THE LIGHT OF CROP DEVELOPMENTS AND PROGRESS IN DOMESTIC PROCUREMENT.

THERE WAS FURTHER DISCUSSION, ON THE BASIS OF A PAPER PREPARED BY THE WORLD BANK, OF THE TERMS AND CONDITIONS OF AID TO INDONESIA, A TOPIC RAISED AT THE DECEMBER MEETING. IT WAS GENERALLY AGREED THAT ASSISTANCE TO INDONESIA SHOULD CONTINUE TO BE PROVIDED ON THE SOFT AVERAGE TERMS WHICH HAD CHARACTERIZED IGGI AID SINCE THE INCEPTION OF THE GROUP. TWO MEMBERS ANNOUNCED A FURTHER SOFTENING OF AID TERMS. ON THE ISSUES OF UNTYING AID, UNCLASSIFIED

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THE GROUP RECOGNIZED THE POSSIBLE PRACTICAL PROBLEMS OF TIED LOANS BUT SEVERAL MEMBERS FELT THAT THESE ISSUES SHOULD BE PURSUED IN A MORE GENERAL CONTEXT RATHER THAN IN RELATION TO PARTICULAR DEVELOPING COUNTRIES. SOME UNTIED AID WAS ALREADY AVAILABLE TO INDONESIA AND SOME MEMBERS WERE CONSIDERING OTHER STEPS TOWARDS UNTYING IN RELATION TO INDONESIA.

THE GROUP AGREED TO HOLD ITS NEXT MEETING ON 11 AND 12 DECEMBER 1973.
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